

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE)
COMMISSION,)
)
Plaintiff,)
)
v.) Civil Action No.
) 1:22-cv-09803-JSR
GEL DIRECT TRUST,)
GEL DIRECT, LLC,)
JEFFREY K. GALVANI,)
STUART A. JEFFERY,)
)
Defendants.)

VIDEOTAPED DEPOSITION OF
JEFFREY K. GALVANI
TUESDAY, MAY 2, 2023

Reported by:
BRIDGET LOMBARDOZZI,
CSR, RMR, CRR
Job No. 230502BLO

Stumbaugh Ex.
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exhibiticker.com

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10:16:39 1 securities industry since 1998?

10:16:46 2 A. Maybe not continuously. I mean, I'm
10:16:48 3 sure there's some breaks there where I was not
10:16:51 4 registered.

10:16:51 5 THE WITNESS: Right? You
10:16:52 6 guys have my -- no?

10:16:56 7 Q. For the most part --

10:16:58 8 A. Yeah, for the most part.

10:16:58 9 Q. -- that's been your career?

10:17:00 10 A. Yeah.

10:17:01 11 Q. And do you con -- do you continue --
10:17:01 12 continue working in the securities industry?

10:17:04 13 A. Yes.

10:17:08 14 Q. All right. I want to first talk about
10:17:10 15 the different GEL entities.

10:17:14 16 Does GEL stand for Global Equities

10:17:16 17 Liquidity?

10:17:19 18 A. Yes.

10:17:19 19 Q. And what does that mean?

10:17:21 20 A. Nothing.

10:17:26 21 Q. Who came up with that name?

10:17:28 22 A. The gentleman we bought the -- the LLC
10:17:31 23 from.

10:17:32 24 Q. And who was that?

10:17:34 25 A. Frank Cannarozzo.

10:20:29 1 managing trustee of GEL Direct Trust, other than
10:20:32 2 GEL Direct, LLC?

10:20:33 3 A. No, we are the managers of GEL Direct
10:20:35 4 Trust.

10:20:35 5 Q. And if I refer to GEL Direct Trust as
10:20:38 6 "GEL Trustee," will you understand what I'm
10:20:41 7 referring to?

10:20:42 8 A. Yeah.

10:20:42 9 Q. And you and Mr. Jeffery own and control
10:20:45 10 the GEL Trustee?

10:20:47 11 A. Correct.

10:20:48 12 Q. Are you equal 50/50 co-owners of the GEL
10:20:51 13 Trustee?

10:20:51 14 A. Yes.

10:20:52 15 Q. Has anyone, other than you and
10:20:54 16 Mr. Jeffery, ever had an ownership interest in GEL
10:20:57 17 Trustee?

10:20:58 18 A. No.

10:21:01 19 Q. Do you and Mr. Jeffery jointly control
10:21:04 20 GEL Trustee?

10:21:05 21 A. Yes.

10:21:05 22 Q. Has anyone, other than you and
10:21:08 23 Mr. Jeffery, ever exercised control over GEL
10:21:10 24 Trustee?

10:21:10 25 A. Nope.

10:21:11 1 Q. Is GEL Trustee's sole business to manage
10:21:15 2 GEL Direct Trust?

10:21:19 3 A. Essentially, yes.

10:21:20 4 Q. Does GEL Trustee have employees?

10:21:22 5 A. Yes.

10:21:22 6 Q. Okay. And who are the employees of GEL
10:21:24 7 Trustee?

10:21:26 8 A. We have Frank Cannarozzo, Justin Turlip,
10:21:31 9 Greg Galvani, Joe Campana. That's --

10:21:38 10 Q. Maybe just kind of speak up and
10:21:40 11 articulate for her, the court reporter.

10:21:43 12 A. Joe Campana. And I believe that's it on
10:21:45 13 the employee side.

10:21:47 14 Q. All right. Your answer suggests that
10:21:50 15 there may also be some independent contractors who
10:21:53 16 do work for GEL Trustee?

10:21:54 17 A. Yes.

10:21:54 18 Q. And who would those people do?

10:21:56 19 A. Richard Teranna does IT. Laura Howard
10:22:00 20 also IT. I believe that's it.

10:22:03 21 Q. Do you and Jeffery share responsibility
10:22:05 22 for managing GEL's personnel?

10:22:14 23 A. Yes.

10:22:14 24 Q. Another entity that I've already
10:22:16 25 mentioned is GEL Direct Trust.

10:22:18 1 If I refer to that today as "GEL," will
10:22:21 2 you understand what I'm referring to?

10:22:23 3 A. Now I'm a little confused because I
10:22:26 4 thought GEL Trustee was -- they're all combined.

10:22:28 5 Q. Yeah, so -- so my understanding is that
10:22:29 6 you manage the operations of GEL Direct Trust
10:22:33 7 through GEL Trustee, its managing trustee?

10:22:36 8 A. Okay. All right, yeah. All right. So
10:22:37 9 they're -- they are intertwined but just separate.

10:22:40 10 Q. Yeah. So if I refer to the GEL Direct
10:22:43 11 Trust, GEL Direct Trust business as "GEL," will
10:22:45 12 you understand?

10:22:45 13 A. Yes.

10:22:46 14 Q. And I'm making a distinction there
10:22:47 15 between GEL Direct Trust and your GEL Group
10:22:50 16 business, for example.

10:22:51 17 A. Perfect.

10:22:57 18 Q. When -- when was GEL formed?

10:23:00 19 A. 2019.

10:23:00 20 Q. And when -- when in 2019 was it formed?

10:23:04 21 A. January.

10:23:04 22 Q. And when did it begin operating?

10:23:12 23 A. I can't recall the exact date, but it
10:23:14 24 was, I want to say, first half of 2019.

10:23:17 25 Q. Is it your understanding that GEL

10:24:17 1 A. I mean --

10:24:20 2 THE WITNESS: Should I tell
10:24:21 3 them who did it? I'm a little --

10:24:22 4 MR. URETSKY: There's no
10:24:22 5 objection. Even if I did here --
10:24:24 6 objection, but you can answer.

10:24:26 7 A. Alliance Global Trust out of Reno,
10:24:30 8 Nevada, was the first group that were doing this.

10:24:33 9 Q. And did you actually do some work with
10:24:35 10 them?

10:24:35 11 A. Yeah, we tried to.

10:24:36 12 Q. And I think you talked a little bit
10:24:39 13 about that in your investigative testimony, is
10:24:41 14 that --

10:24:41 15 A. Maybe.

10:24:49 16 Q. We covered this, I think, already with
10:24:51 17 respect to GEL Trustee, so I'm assuming it applies
10:24:53 18 to GEL as well. But are you and Mr. Jeffery
10:24:57 19 jointly responsible for managing GEL's business?

10:24:59 20 A. Yes.

10:24:59 21 Q. Has anyone, other than you or
10:25:01 22 Mr. Jeffery, ever had control over GEL or managed
10:25:04 23 its business?

10:25:05 24 A. Nope.

10:25:06 25 Q. Who holds the beneficial ownership

10:25:08 1 interest in GEL?

10:25:10 2 A. Stu and I.

10:25:11 3 Q. 50/50?

10:25:11 4 A. 50/50.

10:25:18 5 Q. Why did you and Mr. Jeffery decide to
10:25:20 6 form GEL?

10:25:24 7 A. Saw a need in the industry.

10:25:27 8 Q. What was that need? What was GEL's
10:25:30 9 business purpose?

10:25:31 10 A. The need was that the regulators had
10:25:34 11 been carrying this particular business line for
10:25:37 12 years. People were finding it hard to -- you
10:25:41 13 know, to actually conduct their business, hire
10:25:44 14 the -- the appropriate back office people, the
10:25:47 15 admins. They couldn't -- couldn't find the -- the
10:25:50 16 right people.

10:25:51 17 So we stepped in and said, okay, here we
10:25:54 18 go.

10:25:56 19 Q. So let me break that up a little bit.
10:25:58 20 First, you mentioned a business line that was
10:26:00 21 having trouble from the regulators.

10:26:02 22 What business line are you referring to?

10:26:03 23 A. That would be penny stocks.

10:26:05 24 Q. And what was GEL's business purpose?
10:26:08 25 What need was it seeking to fill?

10:26:10 1 A. The back office admin need. The ability
10:26:13 2 to be able to, you know, handle and take -- you
10:26:17 3 know, take responsibility for their back office
10:26:19 4 procedures from -- you know, try and -- try to
10:26:24 5 eliminate fixed costs for our clients.

10:26:30 6 Q. Is GEL's business purpose documented
10:26:32 7 anywhere?

10:26:33 8 A. I doubt it.

10:26:38 9 Q. We talked a moment ago about GEL
10:26:40 10 Trustee's employees.

10:26:42 11 Does GEL have any employees separate
10:26:44 12 from GEL Trustee?

10:26:45 13 A. No.

10:26:45 14 Q. All of the employees are GEL Trustee
10:26:47 15 employees?

10:26:49 16 A. GEL Trust employees, yeah.

10:26:58 17 Q. What is GEL's relationship with GEL
10:27:01 18 Group, if any?

10:27:06 19 A. Common ownership.

10:27:07 20 Q. Other than that?

10:27:08 21 A. Nothing, really.

10:27:10 22 Q. Are there any other GEL entities or
10:27:12 23 affiliates that we haven't talked about?

10:27:14 24 A. Nothing that's active.

10:27:16 25 Q. Are there some that are now inactive?

10:27:19 1 A. I created, like, a -- a separate LLC,
10:27:21 2 but we never -- never used it.

10:27:24 3 Q. What was -- what was that separate LLC?

10:27:26 4 A. GEL Advisory.

10:27:27 5 Q. And what was GEL Advisory going to do?

10:27:31 6 A. We were going to try and do like a --
10:27:36 7 compliance consulting for broker-dealers, because
10:27:41 8 at the time, myself and another gentleman I was
10:27:43 9 speaking with who's also an ex-chief compliance
10:27:47 10 officer and broker-dealer, had an idea that we
10:27:52 11 thought we could run with.

10:27:53 12 Q. That never got off the ground?

10:27:54 13 A. No, he got a full-time job so he wanted
10:27:57 14 to pursue that instead of the consulting.

10:28:02 15 Q. Let's talk now about GEL's customers.

10:28:06 16 A. Okay.

10:28:07 17 Q. GEL's business is premised on obtaining
10:28:09 18 customers, is that fair?

10:28:12 19 A. I think every business is.

10:28:14 20 Q. Well, there are different types of
10:28:15 21 business. Some are customer-based businesses,
10:28:18 22 others are not.

10:28:20 23 But GEL's business is a -- is based on
10:28:23 24 obtaining customers?

10:28:24 25 A. Mm-hmm.

10:28:24 1 Q. Yes?

10:28:25 2 A. Yes.

10:28:28 3 Q. And those customers would transfer their
10:28:31 4 securities to a GEL Direct account?

10:28:34 5 A. They would transfer their securities to
10:28:37 6 their account at -- at the custodian bank.

10:28:42 7 MR. BERNSTEIN: I'm going to
10:28:43 8 object as nonresponsive.

10:28:45 9 Q. Is it a GEL Direct account that they
10:28:47 10 opened?

10:28:48 11 A. The GEL account is an omnibus account
10:28:50 12 with the breakout for each individual client.

10:28:55 13 Q. And we'll talk --

10:28:56 14 A. Yeah.

10:28:57 15 Q. That's fair. And we'll talk a little
10:28:58 16 bit more in detail about the account structure
10:29:00 17 here in just a moment.

10:29:02 18 But the basic idea is that the customers
10:29:05 19 are going to transfer their securities to a -- a
10:29:09 20 GEL account?

10:29:10 21 A. They don't -- they don't transfer
10:29:11 22 ownership or the name. It's in their name. It's
10:29:14 23 always held in the cust -- customer's name.

10:29:18 24 Q. Okay. Well, we'll look at some
10:29:20 25 documents here in a moment on that issue.

10:29:21 1 But it's a GEL account?

10:29:23 2 A. Yes.

10:29:27 3 Q. And the customers would pay GEL fees for
10:29:29 4 certain services that GEL was going to provide?

10:29:32 5 A. Yes.

10:29:40 6 Q. How many customers has GEL had in total?

10:29:47 7 A. I don't know off the top of my head.

10:29:49 8 Q. Could you give me a -- an approximation?

10:29:50 9 A. Fifty, 60. Maybe around there.

10:29:53 10 Q. Are most of GEL's customers in the
10:29:55 11 United States?

10:29:55 12 A. I think the majority are.

10:29:57 13 Q. And are they located in multiple U.S.
10:30:00 14 states?

10:30:03 15 A. Yeah.

10:30:04 16 Q. When did GEL get its first customer?

10:30:12 17 A. I don't know the exact date. First half
10:30:13 18 of 2019.

10:30:14 19 Q. Do you think it was in the first quarter
10:30:16 20 of 2019 or the second quarter of 2019?

10:30:19 21 A. I have no idea.

10:30:20 22 Q. Would there be records at GEL that would
10:30:21 23 show that?

10:30:22 24 A. Yeah, I'm sure there would be.

10:30:23 25 Q. How did GEL obtain its first customer?

10:32:23 1 that, we introduced this -- we tried to introduce
10:32:26 2 it to Alliance and then we were with Austin
10:32:32 3 Capital in your home state of Texas for awhile.
10:32:36 4 Yeah.

10:32:37 5 And then, you know, I believe it was
10:32:40 6 Matt was our first account when we opened up GEL
10:32:46 7 Direct. But we had -- you know, the -- the
10:32:48 8 introduction to Matt and all those guys, they go
10:32:51 9 back a few years from when we tried to do this at
10:32:54 10 Alliance and we were doing it at Austin.

10:32:57 11 So I think it's really two long-term
10:33:00 12 things. It's not like, you know, in January of
10:33:03 13 '19, my friend introduces us and, you know, we
10:33:06 14 started there. It goes back, like, two years.

10:33:13 15 Q. Is there a -- a group of participants in
10:33:17 16 the penny stock industry that -- that you know and
10:33:22 17 go back with based on your -- your work at these
10:33:26 18 various ventures?

10:33:27 19 A. Yeah. I mean, it's a small community.

10:33:34 20 Q. And is that small community among the --
10:33:36 21 the businesses that ended up being GEL's
10:33:39 22 customers? Is that where GEL's customers came
10:33:41 23 from?

10:33:42 24 A. Some, yeah.

10:33:43 25 Q. Are most of GEL's customers customers

10:33:46 1 that you would consider to be part of that small
10:33:49 2 community of --

10:33:51 3 A. Yeah.

10:33:52 4 Q. -- penny stock participants?

10:33:53 5 A. Yeah, the majority.

10:33:55 6 Q. And those are people that you know from
10:34:00 7 your work in the industry and earlier ventures?

10:34:03 8 A. Yeah. Just a roundabout way, I mean.

10:34:08 9 Q. So when you determined that you were
10:34:10 10 going to launch the GEL business, did you seek to
10:34:12 11 get the word out to that group that -- that you
10:34:18 12 are now doing the GEL business?

10:34:20 13 A. No.

10:34:21 14 Q. So how did you get the word out?

10:34:23 15 A. We didn't.

10:34:25 16 Q. Well, the word got out, right?

10:34:27 17 A. One -- one client spoke to another one.
10:34:28 18 And, like, our rule is, like, clients -- we don't
10:34:33 19 advertise. We don't have a website for it. You
10:34:38 20 know, we don't go to conferences. We don't do
10:34:42 21 the -- those type of things. It's just word of
10:34:45 22 mouth. And every time a client calls us, like a
10:34:50 23 potential new client, first question is, "Who
10:34:53 24 referred you?"

10:34:56 25 That's it.

10:34:57 1 Q. So did all of your clients come from
10:35:01 2 that initial introduction to GPL?

10:35:06 3 A. No, not really. But, I mean, it's not
10:35:09 4 just GPL. There's just others. Like, it all
10:35:13 5 comes from the same tree --

10:35:15 6 Q. Right, and I'm trying --

10:35:16 7 A. -- like I said.

10:35:16 8 Q. And I'm trying to understand how did the
10:35:18 9 tree get put on notice of what you were doing?

10:35:22 10 A. Like I told you before, it's a very
10:35:24 11 small community. So, like, I mean, it just
10:35:28 12 happens, you know, one guy talks to another, talks
10:35:31 13 to another, talks to another, talks to another. I
10:35:33 14 mean, we get calls from guys, like, that got our
10:35:38 15 information from like a transfer agent.

10:35:48 16 Q. And when people within this small penny
10:35:50 17 stock community called, who did they call? You?

10:35:56 18 A. They either called me or they called
10:35:57 19 Stu, whoever -- whoever's number they had got.

10:36:03 20 Q. And you were looking to sign these
10:36:04 21 people up as customers. That's fair, right?

10:36:07 22 A. No.

10:36:08 23 Q. All right. So you did not want
10:36:10 24 customers?

10:36:10 25 A. You'd be surprised at how many people we

10:40:05 1 generally most of these people would deal with
10:40:09 2 brokers or were brokers at some point, so their
10:40:17 3 language is kind of -- tends to go towards the
10:40:19 4 broker-dealer side of the equation.

10:40:21 5 So right off the bat, we tell them we
10:40:24 6 are not a broker so they understand that we're not
10:40:26 7 making money on their -- on their trading. We
10:40:29 8 don't care about their trading. We're not making
10:40:31 9 money on it.

10:40:37 10 So -- because a lot of them want to, you
10:40:38 11 know, get rid of the subscription fees, right,
10:40:41 12 because they think we're making all this money on
10:40:43 13 the -- on the trading, but we're not making a
10:40:46 14 dollar off the trading. So we want to get that
10:40:49 15 right out -- you know, all said and done right off
10:40:53 16 the bat.

10:40:54 17 Q. The GEL customers typically already had
10:41:01 18 penny stocks when they came to you, is that right?

10:41:04 19 A. Yep.

10:41:08 20 Q. And in most cases, the customers were
10:41:10 21 looking to sell their penny stocks?

10:41:12 22 A. Yeah.

10:41:12 23 Q. And to do so quickly?

10:41:19 24 A. I mean, I guess.

10:41:23 25 Q. What is your understanding of how GEL's

10:42:33 1 Q. All right. I'm handing you now a
10:42:34 2 document that we will mark as Exhibit 1.

10:42:44 3 A. Thank you.

10:42:45 4 Q. Sure.

10:42:54 5 MR. BERNSTEIN: And just for
10:42:54 6 the record, the original that has been
10:42:57 7 provided to the witness starts at a
10:43:01 8 website page. The copy that -- that
10:43:05 9 you all have been provided has a
10:43:09 10 declaration at the top that I can pull
10:43:13 11 off because those are double-sided.

10:43:14 12 BY MR. BERNSTEIN:

10:43:16 13 Q. So, Mr. Galvani, let me ask you if you
10:43:19 14 recognize Exhibit 1 as a web-captured printout of
10:43:26 15 the website for gelfinances.com.

10:43:32 16 A. Yeah. This is a -- I do recognize it.

10:43:42 17 Q. And the header in the website refers to
10:43:44 18 "Global Equities Liquidity."

10:43:48 19 A. Yep. Yes.

10:43:56 20 Q. This is a website connected to you and
10:43:58 21 Mr. Jeffery, is that correct?

10:44:04 22 A. Yeah.

10:44:04 23 Q. Did you and Mr. Jeffery prepare and post
10:44:08 24 this website?

10:44:09 25 A. No. Richard Teranna did. It's kind of

10:52:54 1 A. Mm-hmm.

10:52:55 2 Q. Do you recognize Exhibit 2 as a true and
10:52:58 3 correct copy of an example of a GEL account
10:53:02 4 application?

10:53:06 5 A. I guess so, yes.

10:53:07 6 Q. Was every new GEL customer required to
10:53:10 7 fill out an account application?

10:53:12 8 A. Yep.

10:53:12 9 Q. Is Exhibit 2 representative of the form
10:53:16 10 of the account application?

10:53:18 11 A. I believe so.

10:53:19 12 Q. Who initially prepared the account
10:53:21 13 application?

10:53:26 14 A. Bryn Mawr Trust, I believe.

10:53:29 15 Q. Did you review the account application
10:53:31 16 before it went out?

10:53:34 17 A. I'm sure I must have.

10:53:39 18 Q. Was the account application used to
10:53:41 19 establish a GEL Direct account for the customer?

10:53:45 20 A. I believe so, yes.

10:53:50 21 Q. You mentioned earlier the name "Bryn
10:53:52 22 Mawr Trust" and you just said it again in your
10:53:55 23 answer about that application.

10:53:59 24 Is Bryn Mawr Trust one of the places at
10:54:02 25 which GEL Direct accounts were maintained?

10:54:10 1 A. Bryn Mawr is the one that set us up, put
10:54:13 2 us in touch with the lawyers, worked hand in hand
10:54:16 3 with those lawyers to set GEL Direct up. They
10:54:22 4 handled -- they opened up the -- the
10:54:28 5 relationships. They did all of our AML/KYC? They
10:54:36 6 did everything.

10:54:38 7 MR. BERNSTEIN: I'm going to
10:54:39 8 object as nonresponsive.

10:54:40 9 Q. Maybe I can ask the question a little
10:54:42 10 bit differently.

10:54:43 11 When customers opened up their GEL
10:54:47 12 Direct account, those accounts were maintained at
10:54:51 13 financial institutions, is that correct?

10:54:52 14 A. Yes.

10:54:53 15 Q. Okay. Which financial institutions
10:54:55 16 hosted GEL Direct accounts?

10:55:02 17 A. Bryn Mawr.

10:55:04 18 I mean, you want the separate
10:55:06 19 institutions, correct?

10:55:11 20 Q. (Indicating).

10:55:12 21 A. U.S. Trust. U.S. Trust, BBVA, PNC. I
10:55:17 22 might be missing one or two.

10:55:19 23 Q. So initially if -- if I understand the
10:55:21 24 documents correctly, GEL used series trust at Bryn
10:55:35 25 Mawr under a GEL master trust account.

10:55:39 1 A. Yes.

10:55:39 2 Q. Is that correct?

10:55:39 3 A. Correct.

10:55:41 4 Q. Subsequently, GEL began also having GEL
10:55:46 5 customers use subaccounts under an omnibus account
10:55:53 6 at PNC?

10:55:57 7 A. I believe so, yeah.

10:56:02 8 Q. Are there any other institutions or
10:56:04 9 structures that were used for the GEL accounts of
10:56:06 10 which you are aware?

10:56:07 11 A. Not off the top of my head.

10:56:15 12 Q. At a high level, why did GEL move from
10:56:19 13 Bryn Mawr to PNC?

10:56:26 14 A. We never moved from Bryn Mawr to PNC.

10:56:29 15 Q. Let me -- let me rephrase.

10:56:31 16 Why did -- why -- why did GEL start
10:56:33 17 using PNC in addition to Bryn Mawr?

10:56:38 18 A. PN -- PNC is a bank. Bryn Mawr --
10:56:44 19 you're comparing apples and oranges, really. Bryn
10:56:47 20 Mawr was kind of like a -- a master trustee. PNC
10:56:51 21 is a -- is a bank where assets are held for the --
10:56:58 22 for the clients, right? Bryn Mawr was just the
10:57:03 23 kind of main trustee of the; trust if you will.

10:57:12 24 PNC is a bank. We were -- so we were
10:57:15 25 at -- U.S. Trust. If you could compare U.S. Trust

10:57:18 1 to PNC, if you will, because they were both doing
10:57:21 2 the same thing.

10:57:27 3 Q. So I -- and I want you to correct me if
10:57:31 4 I'm wrong. But my understanding is that PNC was
10:57:34 5 doing the same thing as U.S. Bank, but they were
10:57:38 6 also doing a similar function to what Bryn Mawr
10:57:41 7 was for some of your customers --

10:57:43 8 A. Some --

10:57:43 9 Q. -- in that they were holding cash in an
10:57:45 10 omnibus account as well as allocated funds for
10:57:48 11 customers in subaccounts.

10:57:52 12 A. Yeah.

10:57:53 13 Q. So I was trying to understand --

10:57:54 14 A. Okay.

10:57:55 15 Q. -- is there a reason why some of your
10:57:57 16 customers were at Bryn Mawr versus some being at
10:58:00 17 PNC?

10:58:00 18 A. No. No particular.

10:58:05 19 Q. Are GEL Direct accounts insured?

10:58:09 20 A. They are insured by the FDIC.

10:58:13 21 Q. Okay. So there is a -- a GEL account
10:58:16 22 that is insured by the FDIC?

10:58:21 23 A. Yeah.

10:58:21 24 Q. And is it subject to the one account
10:58:23 25 limit?

11:33:32 1 would review it.

11:33:33 2 Q. So they would send their materials
11:33:35 3 directly to an outside law firm?

11:33:37 4 A. So they would send it to an email that
11:33:40 5 was aliased with the outside law firm called
11:33:44 6 deposits@gelgroupllc.com. This way, our lawyers
11:33:48 7 would be able to pull those files down and review
11:33:51 8 the paperwork.

11:33:52 9 Q. And what were they reviewing the
11:33:54 10 paperwork for?

11:33:55 11 A. They were reviewing the paperwork for
11:33:56 12 all the necessary and legal -- I'm not a
11:34:02 13 securities lawyer, so I can't tell you exactly,
11:34:04 14 but they were reviewing the legality of the
11:34:07 15 paperwork.

11:34:11 16 Q. Once GEL's lawyers signed off on the
11:34:14 17 documentation, what was the next step in the
11:34:16 18 transfer process?

11:34:17 19 A. They would fill out a -- a deposit, a
11:34:19 20 DWAC form, like if it was DWAC DRS, some of the
11:34:24 21 time they like to transfer. And then they would
11:34:26 22 submit that to us as a transfer agent, and we
11:34:29 23 would then submit that to the custodian bank and
11:34:32 24 the custodian bank would then match up with
11:34:36 25 transfer agent.

11:34:37 1 Q. And the shares would then move

11:34:40 2 electronically to the custodian bank?

11:34:47 3 A. Correct.

11:34:51 4 Q. Were GEL customers then provided online

11:34:54 5 access to their account?

11:34:58 6 A. We have a -- part of, like, our admin

11:35:00 7 feature is something called Portfolio Shop, where

11:35:06 8 they can review everything on Portfolio Shop.

11:35:09 9 Q. Is Portfolio Shop a third-party software

11:35:13 10 product?

11:35:13 11 A. Yes.

11:35:18 12 Q. So did GEL license the use of Portfolio

11:35:21 13 Shop?

11:35:22 14 A. Yes.

11:35:22 15 Q. And set it up as a platform for the

11:35:24 16 online GEL Direct accounts?

11:35:26 17 A. Yes.

11:35:27 18 Q. So how would a customer get into their

11:35:29 19 GEL Direct account? Did you provide login

11:35:32 20 instructions?

11:35:33 21 A. The third-party vendor would provide the

11:35:37 22 login instructions and walk them through how to

11:35:40 23 access and utilize.

11:35:41 24 Q. Who at GEL was responsible for

11:35:42 25 maintaining the information that was made

11:35:44 1 available to GEL's customers online?

11:35:51 2 A. Justin Turlip, for the most part.

11:35:53 3 Q. What information could they see online?

11:35:59 4 A. I mean, everything they needed to see.

11:36:01 5 Q. So they could see their securities

11:36:03 6 holdings at GEL?

11:36:04 7 A. They could see -- the clients could see

11:36:07 8 their client holdings. They could see their cash.

11:36:13 9 They could see everything, yeah.

11:36:15 10 Q. Could they see a transaction history?

11:36:16 11 A. Yeah.

11:36:17 12 Q. Did they receive notifications online

11:36:19 13 when a sale was made on their behalf?

11:36:25 14 A. What do you mean, "notifications

11:36:27 15 online"? Can you rephrase?

11:36:29 16 Q. Like, could they go online, log into

11:36:31 17 their account and see that a sale had been made on

11:36:33 18 their behalf?

11:36:34 19 A. Yeah. They could see all transactions.

11:36:36 20 Q. All transactions.

11:36:45 21 Did anyone, other than GEL, have the

11:36:47 22 ability to change or input information into the

11:36:55 23 Portfolio Shop platform that GEL used for its

11:36:58 24 customers?

11:36:59 25 A. The software providers.

11:47:37 1 Q. But you did hold cash proceeds from --

11:47:41 2 A. Yes.

11:47:42 3 Q. -- trading at Bryn Mawr Trust?

11:47:44 4 A. Correct, yeah.

11:47:45 5 Q. And you had this master trust account in

11:47:52 6 GEL's name and then series trust set up in your

11:47:56 7 customers' name?

11:47:57 8 A. Yes.

11:47:57 9 Q. And then later -- we talked about

11:47:59 10 this -- you also had some customers who used PNC,

11:48:03 11 which was formerly known as BBVA?

11:48:08 12 A. Yes.

11:48:08 13 Q. And there it was similar, but a little

11:48:10 14 bit different, in that you had a omnibus account

11:48:13 15 and subaccounts?

11:48:14 16 A. Yes.

11:48:26 17 Q. Did you and Mr. Jeffery have to sign

11:48:29 18 papers and submit paperwork to open the accounts

11:48:32 19 for GEL at Bryn Mawr and PNC?

11:48:42 20 A. I don't recall either way, but, I mean,

11:48:44 21 I would assume, yes.

11:48:46 22 Q. And you and Mr. Jeffery were authorized

11:48:47 23 signatories for both the GEL account at Bryn Mawr

11:48:51 24 and the one at PNC?

11:48:55 25 A. I believe so, yeah.

11:48:56 1 Q. Did anyone, other than you and
11:48:58 2 Mr. Jeffery, control the accounts at Bryn Mawr and
11:49:02 3 PNC?

11:49:09 4 A. As far as "control," what do you mean?

11:49:11 5 Q. Have signatory power of the accounts.

11:49:13 6 The power to move money in and out of the

11:49:16 7 accounts. The power to direct the banks.

11:49:19 8 A. I believe just Stu and I at that time,

11:49:28 9 yeah.

11:49:29 10 (Whereupon, exhibit is
11:49:29 11 received and marked Galvani Deposition
11:49:29 12 Exhibit 4 for identification.)

11:49:29 13 BY MR. BERNSTEIN:

11:49:30 14 Q. I'm going to hand you a document now
11:49:32 15 that we'll mark as --

11:49:43 16 A. Four?

11:49:44 17 Q. This will be Exhibit 4.

11:49:53 18 MR. BERNSTEIN: And I can
11:49:54 19 give you a copy in just a second. Let
11:49:56 20 me just...

11:49:58 21 THE WITNESS: Oof. Thank
11:49:59 22 you.

11:50:20 23 BY MR. BERNSTEIN:

11:50:21 24 Q. Mr. Galvani, do you recognize Exhibit 4
11:50:23 25 as a statement for GEL's master trust account at

11:50:33 1 Bryn Mawr?

11:50:34 2 A. It's what it says there, yes.

11:50:47 3 Q. If you go to page 75 of Exhibit 4 --

11:50:54 4 A. Oh, my God, I love that. I opened right
11:50:56 5 up to 76.

11:50:58 6 MR. URETSKY: Did you?

11:51:05 7 A. Okay.

11:51:06 8 Q. You can see on page 75 of Exhibit 4 that
11:51:12 9 there are transfers of cash from sales settled at
11:51:26 10 GEL Direct master trust U.S. Bank account.

11:51:30 11 Do you see that?

11:51:31 12 A. Okay. Yep.

11:51:32 13 Q. Can you explain what's happening here?
11:51:34 14 What are those transactions referring to?

11:51:41 15 A. I mean, it says it right there, right?
11:51:43 16 "Proceeds from sales settled through 8/21/19 at
11:51:46 17 GEL Direct Master Trust U.S. Bank." So it's cash
11:51:50 18 coming in from U.S. Bank.

11:51:52 19 Q. So when shares were sold through an
11:51:59 20 executing broker, the proceeds of those sales
11:52:02 21 would settle at one of GEL's custodian accounts;
11:52:10 22 in this case, U.S. Bank?

11:52:11 23 A. Yes.

11:52:12 24 Q. And then GEL would transfer the sales
11:52:14 25 proceeds from the custodian account to its master

11:52:19 1 trust account, and that's what we're seeing here?

11:52:23 2 A. Correct, at Bryn Mawr.

11:52:24 3 Q. And how did GEL transfer sales proceeds

11:52:30 4 from a custodian account to the master trust

11:52:33 5 account?

11:52:37 6 A. Via a wire.

11:52:38 7 Q. And who would be the person at GEL who

11:52:40 8 would provide the instructions for those wires?

11:52:46 9 A. Probably Greg Galvani.

11:52:50 10 Q. And that's your son?

11:52:51 11 A. I wish. My brother.

11:52:52 12 Q. Brother. Okay.

11:52:57 13 And so in your brother's role at the

11:52:59 14 company, he would be responsible for directing the

11:53:02 15 transfers from the GEL custodian account to the,

11:53:06 16 in this case, master trust account or the PNC

11:53:09 17 omnibus account?

11:53:10 18 A. Yeah. It would either be him or Justin

11:53:12 19 Turlip, yeah.

11:53:18 20 Q. Would GEL then allocate trading proceeds

11:53:20 21 that would come into the master trust account into

11:53:24 22 the series trust or subaccounts associated with

11:53:31 23 the specific customers?

11:53:32 24 A. Yes.

11:53:33 25 Q. And how was that done?

11:55:09 1 talking about --

11:55:10 2 A. The allocations of --

11:55:12 3 Q. It does? Are you okay? Do you want to
11:55:19 4 take a break?

11:55:20 5 A. No, no, I'm okay. I'm looking for a
11:55:22 6 tissue.

11:55:26 7 Q. So, again, just to clarify for the
11:55:27 8 record, if you look at page 81 of Exhibit 4, this
11:55:31 9 shows on the Bryn Mawr bank statement the
11:55:34 10 transfers from Bryn Mawr's master trust account to
11:55:38 11 the series trust associated with each customer.
11:55:44 12 The proceeds are being allocated from the master
11:55:47 13 trust account to the respective customer's series
11:55:50 14 trust or subaccount in -- in accordance with the
11:55:56 15 information GEL had provided on the trading that
11:56:00 16 had occurred?

11:56:00 17 A. Yes.

11:56:08 18 Q. Would GEL also pull its fees out of the
11:56:11 19 master trust or omnibus accounts?

11:56:13 20 A. I believe so, yes.

11:56:18 21 Q. And if you go to page 67 of Exhibit 4 --

11:56:35 22 A. Okay.

11:56:36 23 Q. -- you see a series of entries that
11:56:38 24 state "transfer from account" and then an account
11:56:41 25 number, "GEL November commission sweep." And if

11:56:45 1 you go down the list, there's just entry after

11:56:48 2 entry of these commission sweeps.

11:56:50 3 Do you see that?

11:56:51 4 A. Yes.

11:56:52 5 Q. Does this represent GEL pulling its fees
11:56:59 6 out of the master trust account?

11:57:00 7 A. Yes.

11:57:01 8 Q. And they're different amounts based on
11:57:04 9 what the fees are for, is that correct?

11:57:06 10 A. Correct, yes.

11:57:15 11 Q. When trading proceeds or other money
11:57:16 12 went into the master trust accounts at Bryn Mawr
11:57:19 13 and the omnibus accounts at PNC, GEL had control
11:57:25 14 over the handling of those funds?

11:57:29 15 A. Can you repeat?

11:57:31 16 Q. When trading proceeds or other money
11:57:34 17 went into the master trust accounts at Bryn Mawr
11:57:38 18 and the -- and the omnibus account at PNC, GEL had
11:57:43 19 control over the handling of those funds?

11:57:45 20 A. Yes.

11:57:48 21 Q. After trading proceeds were allocated to
11:57:49 22 a series trust or subaccount, GEL still controlled
11:57:58 23 the funds in those accounts?

11:58:01 24 A. Yeah, I believe. "Controlled the
11:58:08 25 funds," meaning we could do whatever the client

11:58:10 1 wished us to do.

11:58:12 2 MR. BERNSTEIN: Object as
11:58:12 3 nonresponsive.

11:58:13 4 Q. As long as the funds were still within
11:58:16 5 the GEL account, whether it's the master trust
11:58:18 6 account or the series trust or the omnibus account
11:58:21 7 or the subaccount, GEL still had control over the
11:58:26 8 handling of those funds. No one else could move
11:58:29 9 or do anything with those funds, other than GEL?

11:58:32 10 A. Bryn Mawr.

11:58:35 11 Q. Without your authorization?

11:58:42 12 A. I don't think so. But, I mean, they
11:58:43 13 would have access to utilize those funds.

11:58:45 14 Q. Just like in my checking account --

11:58:48 15 A. Yeah.

11:58:48 16 Q. -- if Bank of America wanted to take the
11:58:50 17 funds out of my account, they could.

11:58:52 18 A. Yes.

11:58:53 19 Q. But -- but with respect to proper use of
11:58:54 20 the account, both Bryn Mawr, whether it was in the
11:58:58 21 master trust account or series trust, or PNC,
11:59:01 22 whether it was in the omnibus account or
11:59:04 23 subaccounts, GEL maintained control of those
11:59:07 24 accounts until they were disbursed outside of the
11:59:10 25 GEL account?

11:59:11 1 A. Yeah, at the customer's discretion.

11:59:20 2 Q. And once GEL disbursed the money outside
11:59:22 3 of a GEL account to an outside customer account,
11:59:25 4 which a customer could request, then it was the
11:59:28 5 customer's funds. They could do whatever they --

11:59:31 6 A. Yeah, I mean, this -- they were the
11:59:34 7 customer's funds in every way.

11:59:36 8 Q. Well, they're not the customer's funds
11:59:38 9 when they're in the -- in the GEL master trust
11:59:40 10 account. There were all commingled together.

11:59:43 11 A. No. There, it's their account. It's
11:59:45 12 set up -- I mean, you see it. Their -- their name
11:59:48 13 is on that account. So they --

11:59:49 14 Q. Let me break --

11:59:50 15 A. So they could instruct -- because their
11:59:53 16 name is on the account, they could instruct the
11:59:57 17 money to be moved with or without us. It's their
12:00:00 18 account.

12:00:01 19 Q. Well, let me -- let me break that up
12:00:03 20 again just to be clear.

12:00:04 21 So when the money is in the PNC omnibus
12:00:10 22 account, it's all commingled together?

12:00:12 23 A. Correct. And then it --

12:00:14 24 Q. And then at that point -- and at that
12:00:16 25 point there's -- there's no allocation between the

12:03:47 1 Q. Was that the only bank that was able to
12:03:49 2 do that?

12:03:54 3 A. I know we didn't set it up that way at
12:03:57 4 U.S. Trust. We did set it up at BBVA that way.

12:04:02 5 Q. And when you say "BBVA," you mean PNC?

12:04:04 6 A. Yes. They're one and the same, yeah.

12:04:26 7 MR. BERNSTEIN: Yeah, I
12:04:27 8 messed up all the numbers.

12:04:29 9 Q. Okay. So we talked about this already.

12:04:30 10 But the purpose of the custodian account was to
12:04:34 11 hold GEL's customers' securities?

12:04:38 12 A. Yes.

12:04:38 13 Q. Yes?

12:04:40 14 A. Yes.

12:04:40 15 Q. And the customers' trades were also
12:04:45 16 settled at the custodian accounts?

12:04:48 17 A. Correct.

12:04:49 18 Q. The custodian accounts, themselves, were
12:04:52 19 also opened in GEL's name?

12:04:57 20 A. I'm pretty sure U.S. Trust was BMTC/GEL.

12:05:06 21 Q. Let me show you a document that we'll
12:05:08 22 mark as -- are we at number 5?

12:05:14 23 A. Yes.

12:05:15 24 (Whereupon, exhibit is
12:05:15 25 received and marked Galvani Deposition

12:05:15 1 Exhibit 5 for identification.)

12:05:29 2 THE WITNESS: Thank you.

12:05:29 3 BY MR. BERNSTEIN:

12:05:37 4 Q. Do you recognize Exhibit 5 as an example
12:05:39 5 of a bank statement for the GEL custodian account
12:05:43 6 at U.S. Bank?

12:05:44 7 A. Yes.

12:05:45 8 Q. And do you see from that account
12:05:46 9 statement whether the account is in GEL's name --

12:05:50 10 A. It says GEL Direct, LLC. But I can tell
12:05:53 11 you this. We did not fill out any paperwork. We
12:05:56 12 didn't -- we hardly ever even interacted with
12:06:00 13 U.S. Bank during the setup. It was Ron Templeton
12:06:04 14 did.

12:06:06 15 Q. So irrespective of who interacted with
12:06:09 16 U.S. Bank during the setup, you can see from
12:06:12 17 Exhibit 5 that the account itself was a GEL Direct
12:06:19 18 Trust account?

12:06:20 19 A. Yes.

12:06:21 20 Q. And were you and Mr. Jeffery the
12:06:23 21 authorized signatories for the U.S. Bank custodian
12:06:27 22 account?

12:06:27 23 A. I believe we were and so was Ron
12:06:29 24 Templeton at BMTC.

12:06:33 25 Q. You believe he was or you know he was?

12:06:35 1 A. I'm pretty sure he was, because during
12:06:36 2 the setup, it was Bryn Mawr Trust that did the
12:06:40 3 setup, not Stu and I.

12:06:42 4 Q. And we talk about PNC being another
12:06:48 5 custodian --

12:06:48 6 A. Mm-hmm.

12:06:49 7 Q. -- account. And we also established
12:06:54 8 earlier that you and Mr. Jeffery were authorized
12:06:57 9 signatories on the PNC account.

12:06:58 10 A. PNC, yeah.

12:06:59 11 Q. And you don't believe Mr. Templeton was
12:07:01 12 a signatory on the PNC account?

12:07:03 13 A. I'm not --

12:07:03 14 Q. That wouldn't make any sense.

12:07:04 15 A. I'm not a hundred percent sure, but I'm
12:07:07 16 pretty sure he was at U.S. Bank.

12:07:08 17 Q. But not at PNC?

12:07:10 18 A. But maybe not at PNC or BBVA. I don't
12:07:12 19 know.

12:07:40 20 Q. Did GEL identify its customers to
12:07:42 21 U.S. Bank?

12:07:54 22 A. Yes and no.

12:07:55 23 Q. Explain.

12:07:56 24 A. All the securities that went in were --
12:07:59 25 were sent in with an FBO.

12:10:10 1 A. They may not, but the TA wouldn't
12:10:12 2 transfer them without an FBO.

12:10:16 3 Q. And the penny stocks in the custodian
12:10:18 4 account were all just commingled in one account,
12:10:22 5 correct?

12:10:22 6 A. Correct.

12:10:30 7 Q. There were no subaccounts or series
12:10:32 8 trust in the custodian's notes?

12:10:35 9 A. Not at the custodian. At Bryn Mawr.

12:10:37 10 Q. Are the custodian accounts insured?

12:10:39 11 A. Yes.

12:10:43 12 Q. And what is the limit of that insurance?

12:10:45 13 A. The FDIC limit.

12:10:48 14 Q. As a -- but for one customer?

12:10:50 15 A. Correct.

12:10:50 16 Q. And GEL is that customer?

12:10:52 17 A. Essentially, yes.

12:11:16 18 (Whereupon, exhibit is
12:11:16 19 received and marked Galvani Deposition
12:11:16 20 Exhibit 6 for identification.)

12:11:16 21 BY MR. BERNSTEIN:

12:11:17 22 Q. I'm going to hand you now a document
12:11:19 23 that's been marked as Exhibit 6.

12:11:23 24 A. Thank you.

12:11:34 25 Q. Do you recognize Exhibit 6 as an example

12:11:36 1 of a GEL Direct transfer instruction form for one
12:11:40 2 of GEL's customers?

12:11:42 3 A. Yeah.

12:11:47 4 Q. Is Exhibit 6 the DWAC form that
12:11:50 5 customers would use to transfer shares
12:11:56 6 electronically to their GEL Direct account?

12:12:00 7 A. Yes. This is not what was going to
12:12:06 8 U.S. Trust -- or U.S. Bank, rather, or PNC.

12:12:11 9 Q. Where would this form go?

12:12:13 10 A. This is just to us.

12:12:14 11 Q. So the customer would fill out Exhibit 6
12:12:17 12 and send it in to -- to GEL?

12:12:20 13 A. Yes.

12:12:21 14 Q. Then what was the next step? How did
12:12:23 15 GEL get the shares from the customer to the
12:12:27 16 custodian bank?

12:12:28 17 A. We would put a list of what was -- what
12:12:32 18 we were going to go out and try to get down off of
12:12:35 19 the DWAC system via a template that the banks
12:12:39 20 provided. We send that, and they would go. We
12:12:46 21 don't actually put anything into the system.

12:12:48 22 Q. And did you have to provide the
12:12:52 23 custodian bank any type of documentation to
12:12:55 24 substantiate that you had authorization to
12:12:58 25 transfer those shares?

12:12:59 1

A. No.

12:13:06 2

Q. So the document that the custodian bank

12:13:08 3

received, was that an electronic document?

12:13:12 4

A. Yeah, a spreadsheet.

12:13:14 5

Q. And has GEL maintained those

12:13:16 6

spreadsheets?

12:13:18 7

A. I believe so.

12:13:20 8

Q. Okay. And it -- and you believe that

12:13:22 9

those spreadsheets show that each transfer was for

12:13:25 10

the benefit of an underlying customer?

12:13:28 11

A. Yeah. That's the way we set it up.

12:13:32 12

Q. But then, once the shares were actually

12:13:34 13

transferred, they were commingled in the custodian

12:13:37 14

account?

12:13:38 15

A. And then -- but allocated into the

12:13:40 16

subaccounts in the appropriate levels.

12:13:44 17

Q. Well, there are no subaccounts in the

12:13:46 18

custodian bank.

12:13:48 19

A. Correct. But in Portfolio Shop, they

12:13:50 20

were allocated accordingly.

12:13:59 21

Q. Once GEL's customers' shares were

12:14:01 22

deposited in the custodian accounts, GEL had

12:14:05 23

control over the handling of those securities?

12:14:13 24

A. Can you clarify that? What do you mean?

12:14:21 25

Q. The custodian banks could take direction

12:14:22 1 from GEL about the handling of securities, whether
12:14:25 2 moving them in and out of the account --

12:14:26 3 A. Yes.

12:14:27 4 Q. -- or -- or --

12:14:28 5 A. Yes.

12:14:29 6 Q. So let me -- let me start over again.

12:14:32 7 Once GEL's customers' shares were
12:14:36 8 deposited in the custodian accounts, GEL had
12:14:39 9 control over the handling of the securities?

12:14:40 10 A. Yes.

12:14:41 11 Q. And that would include whether shares
12:14:43 12 were transferred in or out of the custodian
12:14:46 13 accounts?

12:14:47 14 A. Correct. At the customer's discretion,
12:14:49 15 yeah.

12:14:53 16 Q. Whether the customer exercised
12:14:55 17 discretion or not, GEL is the one that had the
12:14:58 18 actual control?

12:15:00 19 A. Correct.

12:15:00 20 Q. And the custodian banks did not take
12:15:03 21 instruction directly from GEL's customers?

12:15:08 22 A. Correct.

12:15:11 23 Q. So if securities were transferred out of
12:15:13 24 a custodian bank to settle a trade, those
12:15:20 25 instructions had to come from GEL?

12:15:21 1 A. Correct. We would provide them at the
12:15:23 2 end of the day.

12:15:24 3 Q. And that's something that GEL regularly
12:15:25 4 did in the course of its business?

12:15:27 5 A. Yes.

12:15:30 6 Q. Every day?

12:15:31 7 A. Every day.

12:15:40 8 Q. How did GEL track the securities in the
12:15:46 9 custodian account to match those with the
12:15:53 10 specific -- specific customer to have that then
12:15:55 11 show up in Portfolio Shop?

12:16:03 12 A. I mean --

12:16:04 13 Q. Well, let me strike that question and
12:16:06 14 ask a simpler question.

12:16:07 15 How did GEL track the securities in the
12:16:11 16 custodian account to match those with the specific
12:16:16 17 customer who had beneficial ownership of the
12:16:18 18 shares?

12:16:19 19 A. Probably not the best one to give you a
12:16:21 20 definitive answer on that, so...

12:16:24 21 Q. Who would be the best person?

12:16:27 22 A. Justin Turlip.

12:16:43 23 Q. GEL also established several DVP
12:16:47 24 brokerage accounts?

12:16:49 25 A. Correct.

12:19:05 1 account --

12:19:06 2 A. Mm-hmm.

12:19:06 3 Q. -- were all of those DVP accounts opened
12:19:08 4 in GEL's name?

12:19:09 5 A. Yes.

12:19:12 6 Q. Were you and Mr. Jeffery the signatories
12:19:14 7 on the DVP accounts?

12:19:16 8 A. Maybe.

12:19:17 9 Q. Did anyone, other than you and
12:19:19 10 Mr. Jeffery, control the DVP accounts?

12:19:21 11 A. No.

12:19:38 12 (Whereupon, exhibit is
12:19:38 13 received and marked Galvani Deposition
12:19:38 14 Exhibit 7 for identification.)

12:19:40 15 BY MR. BERNSTEIN:

12:19:41 16 Q. I'm handing you now a document that's
12:19:42 17 been marked as Exhibit 7.

12:19:57 18 A. Okay.

12:19:57 19 Q. Do you recognize Exhibit 7 as a true and
12:20:00 20 correct copy of a Raymond James' statement for
12:20:06 21 GEL's DVP account at Raymond James?

12:20:11 22 A. I would take your word for it. I've
12:20:12 23 never seen it before.

12:20:24 24 Q. As you can see from the front page of
12:20:26 25 Exhibit 7, the DVP account at Raymond James is in

12:21:30 1 Do you see that?

12:21:31 2 A. Yes.

12:21:32 3 Q. Is it your understanding that DVP
12:21:34 4 accounts don't actually hold shares or proceeds?

12:21:40 5 A. Correct.

12:21:41 6 Q. Okay. And is that why the account
12:21:46 7 basically has a zero balance?

12:21:52 8 A. Correct.

12:21:53 9 MR. URETSKY: Same objection.

12:21:53 10 Q. If you look at page 3 of Exhibit 7 --
12:22:10 11 actually, before we go to page 3 of Exhibit 7,
12:22:13 12 just generally looking at this DVP account
12:22:16 13 statement --

12:22:16 14 A. Mm-hmm.

12:22:16 15 Q. -- at Exhibit 7, there's no reference to
12:22:20 16 any of GEL's customers in the statement itself, is
12:22:27 17 that fair?

12:22:28 18 MR. URETSKY: Same objection.

12:22:28 19 You can still answer, if you
12:22:29 20 know.

12:22:31 21 THE WITNESS: Wait, what?

12:22:32 22 MR. URETSKY: Same objection.

12:22:33 23 You can still answer, if you
12:22:34 24 know.

12:22:34 25 THE WITNESS: Oh, okay.

12:25:26 1 weird way to bookkeep an RVP/DVP transaction.

12:25:59 2 Mr. Bernstein, after this exhibit, do
12:26:00 3 you mind if we take a break?

12:26:02 4 Q. We can take a break.

12:26:04 5 MR. BERNSTEIN: Let's go off
12:26:04 6 the record.

12:26:05 7 THE VIDEOGRAPHER: The time
12:26:05 8 right now is 12:25 p.m. We're off the
12:26:08 9 record.

12:26:08 10 (Whereupon, a recess is
12:26:08 11 taken.)

12:39:02 12 THE VIDEOGRAPHER: The time
12:39:03 13 right now is 12:38 p.m. We're back on
12:39:06 14 the record.

12:39:08 15 BY MR. BERNSTEIN:

12:39:08 16 Q. All right. Mr. Galvani, in your
12:39:10 17 experience, are some executing brokers not willing
12:39:16 18 to accept subpenny and penny stocks?

12:39:18 19 A. In my experience? Yes.

12:39:20 20 Q. How did GEL find executing brokers who
12:39:23 21 were willing to do so?

12:39:32 22 A. I don't know. I mean, we spoke to
12:39:35 23 people, and they said they could do them.

12:39:39 24 Q. Tell me a little bit more about that.

12:39:45 25 A. What would you like to know? Because --

12:39:48 1 Q. I -- I want to understand how you
12:39:49 2 obtained a roster of executing brokers that were
12:39:54 3 willing to accept subpenny and penny stocks.

12:40:03 4 A. I couldn't possibly even begin to
12:40:04 5 explain that. Just conversations asking what they
12:40:07 6 can and cannot do. That type of stuff.

12:40:11 7 Q. So you reached out to different
12:40:13 8 executing brokers and talked to them about whether
12:40:17 9 they would be willing to take these types of
12:40:19 10 stocks?

12:40:20 11 A. Just relationships that I've had over
12:40:22 12 the last 20-something years. Just asked
12:40:27 13 questions.

12:40:28 14 Q. So did you pick up the phone? Did you
12:40:30 15 send them an email? How did it -- how did it
12:40:31 16 work? How did you -- it sounds like you were
12:40:34 17 involved in this process.

12:40:36 18 A. I mean, pick up the phone, casual
12:40:41 19 conversation. I mean, it's all -- I can't even
12:40:51 20 remember.

12:40:52 21 Q. How many executing brokers has GEL used?

12:40:59 22 A. That, I couldn't tell you.

12:41:01 23 Q. More than ten?

12:41:02 24 A. Probably.

12:41:10 25 Q. Why was GEL seeking to find executing

12:41:13 1 brokers who were willing to take subpenny and

12:41:19 2 penny stocks?

12:41:22 3 A. Because that's what our clients have.

12:41:24 4 Q. So that was one of the services that GEL

12:41:26 5 was providing to its customers?

12:41:28 6 A. We were trying to help them, yes.

12:41:36 7 Q. So let's talk now about the process --

12:41:41 8 process itself for when a GEL customer wanted to

12:41:52 9 place an -- place an award.

12:41:59 10 How did that process work? Can you walk

12:42:01 11 me through the steps?

12:42:08 12 A. How did what process work?

12:42:10 13 Q. So there's a GEL customer that has a

12:42:12 14 penny stock that's in its account at GEL and it

12:42:18 15 decides that it wants to sell that stock using one

12:42:23 16 of the executing brokers that GEL has developed a

12:42:26 17 relationship with.

12:42:27 18 A. Okay.

12:42:28 19 Q. So how does that process work starting

12:42:30 20 with the first step?

12:42:32 21 MR. URETSKY: Objection as to

12:42:33 22 form.

12:42:33 23 You can answer.

12:42:34 24 A. So most of our clients have accounts

12:42:40 25 already, RVP/DVP accounts already at these

12:42:44 1 executing brokers. But if they wanted -- if they
12:42:47 2 weren't calling directly, they could call up one
12:42:49 3 of our liaisons --

12:42:52 4 MR. BERNSTEIN: I'm going to
12:42:53 5 object as nonresponsive.

12:42:55 6 Q. Just so we can shorten this, I'm not
12:42:56 7 talking about situations where they had their own
12:42:58 8 DVP account. I was very specific in my question.

12:42:59 9 A. Yeah, I --

12:42:59 10 Q. I want to talk --

12:43:02 11 (Unintelligible cross talk;
12:43:02 12 reporter requests one speaker.)

12:43:02 13 Q. Let me finish.

12:43:03 14 I want to talk about a situation where
12:43:05 15 the trade is going to be executed through a GEL
12:43:10 16 DVP account at an executing broker.

12:43:12 17 A. Okay.

12:43:13 18 Q. So with that in mind, let's -- can you
12:43:15 19 walk me through the process of how it worked when
12:43:17 20 a GEL customer wanted to sell a security?

12:43:21 21 MR. URETSKY: Objection as to
12:43:21 22 form.

12:43:22 23 You can answer.

12:43:23 24 A. Okay. Apologies.

12:43:28 25 So they would call up our liaison, who

12:43:30 1 would then take the direction and relay it to the
12:43:33 2 executing broker.

12:43:34 3 Q. And who is the liaison?

12:43:36 4 A. Frank Cannarozzo.

12:43:37 5 Q. And what information about the proposed
12:43:40 6 trade did the GEL customer have to provide to
12:43:46 7 GEL's liaison?

12:43:50 8 A. Buy or sell, quantity, symbol, price,
12:43:53 9 and any other instructions that they deemed fit.

12:43:59 10 Q. And how was that information provided?

12:44:04 11 A. Could be over a phone call. Could be
12:44:06 12 over email, text.

12:44:14 13 Q. Were records kept of all of the trade
12:44:16 14 routing information that GEL customers were
12:44:17 15 providing to the GEL liaison?

12:44:20 16 MR. URETSKY: Objection as to
12:44:21 17 form.

12:44:21 18 You can answer.

12:44:22 19 A. I believe so, yes.

12:44:24 20 Q. So all those texts, all those emails?

12:44:28 21 A. The emails for sure. The texts, I'm
12:44:34 22 pretty sure we have a bunch. Not a -- I can't be
12:44:37 23 certain.

12:44:41 24 Q. Is -- and how do you pronounce his last
12:44:44 25 name, Mr. --

12:44:45 1 A. Cannarozzo.

12:44:46 2 Q. Okay. So is Mr. Cannarozzo the only
12:44:49 3 person at GEL who received instructions from
12:44:52 4 customers about trades?

12:45:00 5 A. No. I -- I believe Stu and I also have
12:45:03 6 taken turns or taken the instructions.

12:45:08 7 Q. So you have some firsthand experience
12:45:10 8 with --

12:45:11 9 A. Some. Limited.

12:45:13 10 Q. When customers were providing trading
12:45:16 11 instructions to GEL, did those instructure --
12:45:20 12 instructions often include parameters on the price
12:45:24 13 and volume that would be acceptable to the
12:45:26 14 customer?

12:45:26 15 MR. URETSKY: Objection.

12:45:27 16 You can answer, if you
12:45:28 17 understand.

12:45:33 18 A. As far as parameters, like, they would
12:45:37 19 give you "I want to sell X amount and I don't want
12:45:42 20 it to go lower than this price."

12:45:44 21 Q. So --

12:45:45 22 A. All of it.

12:45:47 23 Q. So -- so X price or better?

12:45:50 24 A. Yeah.

12:45:50 25 Q. Did they also give you parameters on the

12:45:54 1 volume or was it always a set volume?

12:45:59 2 A. Depends. I mean, it's case by case,
12:46:03 3 order by order, client by client.

12:46:05 4 Q. So in some cases, they could put in
12:46:10 5 structure -- instructions to sell as much as you
12:46:12 6 could or some specific amount or some range?

12:46:15 7 A. Yeah, some.

12:46:17 8 Q. How did GEL acknowledge acceptance of
12:46:24 9 the trade instructions that it was getting from
12:46:27 10 its customers?

12:46:35 11 A. I can't really answer that. I mean, if
12:46:38 12 it's -- it depends on how the trade was -- you
12:46:41 13 know, how the instruction was given.

12:46:43 14 Q. The manner of communication?

12:46:44 15 A. Yeah.

12:46:45 16 Q. So if it was an email, would you or
12:46:51 17 Mr. Cannarozzo provide a return email
12:46:55 18 acknowledging receipt?

12:46:56 19 A. I would think so, yes.

12:47:00 20 Q. The same for a text?

12:47:01 21 A. I would think so.

12:47:02 22 Q. And then on the phone, you're just
12:47:04 23 talking?

12:47:06 24 A. Correct.

12:47:16 25 Q. Once a customer provided trade

12:52:51 1 Q. -- with the executing broker to do your
12:52:53 2 best to try to fill that order within the range?

12:52:55 3 A. Correct.

12:52:56 4 Q. And you would use your efforts to try to
12:52:59 5 get it in as high a range as you could to get the
12:53:02 6 best return for your customer?

12:53:04 7 A. That's the executing broker's purview,
12:53:06 8 not ours.

12:53:10 9 Q. So you were not -- you were not looking
12:53:12 10 out for the best execution of your customers?

12:53:16 11 A. We were relaying the instructions. It's
12:53:18 12 on the broker for best ex.

12:53:20 13 Q. Okay. So if you are trying to get the
12:53:22 14 trade done within a range, like if you see 5 to
12:53:30 15 100 and you're communicating with the executing
12:53:34 16 broker, you were never communicating with the
12:53:37 17 executing broker on -- on what price to try for,
12:53:39 18 or that's not something that happened?

12:53:46 19 A. It all depends on what the customer's
12:53:48 20 wishes and instructions are.

12:54:08 21 Q. Were you one of the people at GEL who
12:54:09 22 was providing instructions to the executing
12:54:12 23 brokers?

12:54:14 24 A. In the beginning, I'm sure, yeah.

12:54:34 25 Q. We talked about this one.

12:54:36 1 An executing broker executed a sale,
12:54:39 2 the -- the shares were sold through the GEL DVP
12:54:44 3 accounts, correct?
12:54:47 4 A. Okay.
12:54:48 5 Q. But GEL was not the beneficer --
12:54:52 6 beneficial owner of those stocks?
12:54:55 7 A. Okay.
12:54:56 8 Q. Is that a yes or a no?
12:54:58 9 A. Yeah.
12:55:02 10 Q. The stocks that went through the GEL DVP
12:55:04 11 accounts were owned by GEL's underlying customers,
12:55:11 12 not GEL itself?
12:55:12 13 A. Correct.
12:55:16 14 Q. GEL was providing the trading
12:55:17 15 instructions to the executing brokers for the
12:55:19 16 accounts of its customers?
12:55:24 17 A. GEL was relaying the instructions from
12:55:26 18 the customers to the executing brokers, yes.
12:55:30 19 Q. It sounds like you're trying to make a
12:55:32 20 distinction -- distinction between me saying GEL
12:55:34 21 was providing and relaying.
12:55:36 22 What is your understanding of the
12:55:38 23 distinction?
12:55:39 24 A. There is none. I'm just telling you
12:55:41 25 back.

12:58:08 1 A. Let me clarify. When an executing
12:58:13 2 broker would ask for the specific deposit
12:58:16 3 documents for a stock, we would -- we would give
12:58:19 4 that over. And that -- those deposit documents,
12:58:23 5 as you see, will have the customers' names on it.

12:58:26 6 Q. Okay. So you're talking about something
12:58:27 7 a little bit different than I am.

12:58:30 8 A. Okay. Maybe we're talking apples and
12:58:31 9 oranges, maybe.

12:58:33 10 Q. Yeah. What you're saying is that with
12:58:35 11 respect to a particular transaction, an executing
12:58:37 12 broker might ask for information relating to the
12:58:40 13 underlying stock that you were asking them to
12:58:42 14 execute on which would include information about
12:58:44 15 the customer holding that stock.

12:58:46 16 A. Correct.

12:58:48 17 Q. That's very different from disclosing to
12:58:50 18 the executing broker a list of all of GEL's
12:58:52 19 underlying customers.

12:58:54 20 A. You are correct. Sorry about that.

12:58:56 21 Q. So did GEL ever identify its customers
12:59:00 22 to the executing brokers?

12:59:01 23 A. No.

12:59:11 24 Q. GEL was routing customer orders for the
12:59:16 25 sale of stock from numerous issuers?

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MR. URETSKY: Objection to
form.

You can answer, if you
understand.

A. Can you repeat?

Q. GEL was --

MR. BERNSTEIN: I'm trying to
use his words, so I don't know how to
say it.

MR. URETSKY: His word was
"relaying."

Q. Relaying.

A. That's why.

Q. So let me start over.

GEL was taking in instructions from its
customers and sending those instructions to
executing brokers for numerous issuers?

A. Yes.

Q. How many different issuers were traded
through these GEL accounts?

A. Oh, no idea.

Q. Were most of the issuers subpenny or
penny stocks?

A. The majority were penny stocks. Five
dollars and below.

01:00:18 1 Q. Have you ever been an employee or
01:00:21 2 independent contractor for any of the issuers of
01:00:26 3 the securities that GEL's customers transferred to
01:00:30 4 GEL?

01:00:30 5 A. Not that I know of.

01:00:32 6 Q. Has Mr. Jeffery?

01:00:34 7 A. Not that I know of.

01:00:38 8 Q. Has anyone at GEL?

01:00:39 9 A. Not that I know of.

01:00:45 10 Q. Did GEL receive any compensation
01:00:47 11 directly from the issuers of the securities?

01:00:52 12 A. Not that I'm aware of.

01:01:03 13 Q. I'm handing you now an exhibit that's
01:01:06 14 now been marked as Exhibit 7 (sic).

01:01:09 15 A. Thank you.

01:01:10 16 (Whereupon, exhibit is
01:01:10 17 received and marked Galvani Deposition
01:01:10 18 Exhibit 8 for identification.)

01:01:16 19 MR. URETSKY: I think it was
01:01:17 20 8.

01:01:18 21 MR. BERNSTEIN: Is it 8?
01:01:19 22 Sorry.

01:01:20 23 THE WITNESS: I have seven.

01:01:22 24 MR. BERNSTEIN: Let me remark
01:01:23 25 it.

01:03:58 1 been marked as Exhibit 9. Exhibit 9 is an email
01:04:40 2 from you to Lisa Carbonara at Bay Crest Partners,
01:04:44 3 dated August 16th of 2019.

01:04:53 4 Do you recognize Exhibit 9?

01:04:54 5 A. Not really, but okay.

01:04:57 6 Q. Is this an email you sent?

01:04:58 7 A. Could be, yeah. It says so.

01:05:02 8 Q. Do you have a reason to -- to doubt that
01:05:04 9 this is an email that you sent?

01:05:06 10 A. From 2019? I can barely remember last
01:05:09 11 week, so...

01:05:13 12 Q. Did you send emails to Lisa Carbonara at
01:05:19 13 Bay Crest?

01:05:19 14 A. I'm sure I did.

01:05:21 15 Q. And Bay Crest was one of the executing
01:05:22 16 brokers that GEL used?

01:05:23 17 A. Yes.

01:05:25 18 Q. Did GEL get pushback from some of the
01:05:31 19 executing brokers it was using about the volume
01:05:39 20 and type of securities that would come through?

01:05:42 21 A. Yes, absolutely.

01:05:43 22 Q. And is this an example of that here in
01:05:48 23 Exhibit 9?

01:05:49 24 A. Yes.

01:05:50 25 Q. Can you tell us what the issue was that

01:05:52 1 Bay Crest was raising with you here?

01:05:54 2 A. Sure. Merrill Lynch was their clearing
01:05:59 3 firm, and they've gotten a ton of pushback from
01:06:03 4 the regulators regarding penny stocks for anybody
01:06:09 5 that's deemed not a big broker-dealer. So they
01:06:16 6 were shutting down a lot of their introducing
01:06:19 7 broker, their correspondence, if you will, from
01:06:22 8 executing penny stocks because they didn't -- it
01:06:24 9 wasn't -- to them it wasn't worth the hassle of
01:06:28 10 dealing with the regulators.

01:06:31 11 Q. So Merrill Lynch was the clearing firm?

01:06:33 12 A. Yes.

01:06:34 13 Q. And Merrill Lynch told Bay Crest that it
01:06:36 14 would not clear these trades for Bay Crest?

01:06:40 15 A. Well, I can't speak for Bay Crest, but
01:06:42 16 reading this email, that's what it reads.

01:06:45 17 Q. That was your understanding --

01:06:46 18 A. Yes.

01:06:46 19 Q. -- of the issue with Bay Crest?

01:06:48 20 A. Yes.

01:06:48 21 Q. And how was it resolved?

01:06:50 22 A. We stopped doing business with Bay
01:06:52 23 Crest.

01:06:52 24 Q. And did that happen with any other
01:06:54 25 executing brokers?

01:06:55 1 A. Oh, yeah. Everybody that cleared

01:06:58 2 Merrill.

01:07:00 3 Q. And so was GEL always in the position of
01:07:06 4 having to kind of look at new executing brokers to
01:07:08 5 try to refill its roster?

01:07:10 6 A. Yeah.

01:07:13 7 Q. And is that something you spent your
01:07:15 8 time doing?

01:07:16 9 A. I think we all did.

01:08:23 10 Q. You mentioned that there were situations
01:08:24 11 where the GEL customer used their own executing
01:08:29 12 broker and did not go through the process of
01:08:38 13 sending trading instructions to GEL and then
01:08:40 14 having GEL contact an executing broker with which
01:08:43 15 GEL had an account, correct?

01:08:45 16 A. Yeah.

01:08:49 17 Q. So in the situations where the GEL
01:08:51 18 customer used their own executing broker, how did
01:08:56 19 that process work?

01:09:00 20 A. They would call their broker, give
01:09:02 21 trades, and at the end of the day, send us a file
01:09:06 22 so we could put it into the system and settle the
01:09:08 23 trades with the custodian bank.

01:09:11 24 Q. So in those situations, GEL was not
01:09:15 25 providing the service of connecting the customer

01:09:25 1 to an executing broker with a GEL DVP account?

01:09:29 2 A. I'm sorry, can you -- can you repeat?

01:09:31 3 Q. So in situations where a GEL customer

01:09:36 4 used their own executing broker, GEL was not

01:09:39 5 providing the service of taking in their

01:09:41 6 instructions and then, in your words, relaying it

01:09:44 7 to an executing broker?

01:09:45 8 A. Correct.

01:09:48 9 Q. But in those cases, GEL still had the

01:09:53 10 customers securities in its GEL custodian account,

01:09:57 11 correct?

01:09:57 12 A. Correct.

01:09:59 13 Q. So did GEL have to then provide

01:10:07 14 instructions on the settlement of those trades?

01:10:11 15 A. Yes, we did.

01:10:11 16 Q. So -- so in those cases, GEL was still

01:10:17 17 providing the settlement services because GEL was

01:10:23 18 the custodian of the shares?

01:10:27 19 A. So we would -- we would match -- we

01:10:30 20 would send the file that the customer would send

01:10:32 21 us. We would send it to the bank and the bank

01:10:35 22 would match up with the executing broker for RVP

01:10:40 23 and DVP in -- and settle on T-2.

01:10:44 24 Q. But if GEL did not provide those

01:10:50 25 instructions, the trade could not go through?

01:10:54 1 A. Correct.

01:11:00 2 Q. Were the executing brokers where GEL had
01:11:05 3 DVP accounts executing the trades in those
01:11:10 4 accounts primarily in the U.S. OTC market?

01:11:17 5 A. Yeah.

01:11:18 6 Q. So most of the trades in the GEL
01:11:21 7 accounts were in the OTC market?

01:11:25 8 A. Yes.

01:11:27 9 Q. Why were most trades handled in the OTC
01:11:30 10 market?

01:11:30 11 A. Well, 85 percent of the U.S. capital
01:11:33 12 markets is the over-the-counter markets. And
01:11:36 13 those are the smaller companies that need family
01:11:38 14 office, venture cap, that type of money to do like
01:11:43 15 a register direct, a reg-A, a convertible note.
01:11:48 16 So just the nature of the beast.

01:11:53 17 Q. Because the penny stocks were not
01:11:54 18 typically listed on the NYSE or the NASDAQ?

01:11:58 19 A. No. The listing requirements for both
01:12:00 20 of those are outrageous. Most smaller companies
01:12:08 21 can't afford it.

01:12:09 22 Q. And so they trade on the OTC?

01:12:12 23 A. Yeah.

01:12:31 24 Q. What role did you play, if any, in the
01:12:36 25 settlement side of GEL's business?

01:12:42 1 A. As far as?

01:12:44 2 Q. Well, I think you mentioned earlier that
01:12:47 3 Mr. Turlip maybe was the one who was providing
01:12:53 4 breakdowns to custodian banks in connection with
01:12:58 5 the settlement of trades --

01:13:00 6 A. Mm-hmm.

01:13:02 7 Q. -- and that he was also providing
01:13:04 8 information to the financial institutions holding
01:13:10 9 the cash. Is that --

01:13:12 10 A. Okay.

01:13:12 11 Q. So what I want to under -- understand
01:13:15 12 is, did you play any role in the settlement side
01:13:17 13 of the business personally?

01:13:23 14 A. Maybe in the beginning, but definitely
01:13:25 15 not active in it, no.

01:13:31 16 Q. Is Mr. Turlip the best person to talk to
01:13:33 17 about that?

01:13:33 18 A. About the settlement side?

01:13:35 19 Q. Yes, sir.

01:13:36 20 A. Yes. Absolutely.

01:13:40 21 Q. Did GEL process and keep records of the
01:13:43 22 securities transactions that were made on behalf
01:13:47 23 of its clients or customers?

01:13:50 24 A. Yeah. They're all captured in the
01:13:52 25 Portfolio Shop.

01:13:53 1 Q. So one place that GEL processed and kept
01:13:56 2 records of the securities transactions was in
01:13:59 3 Portfolio Shop, correct?

01:14:02 4 A. Yes. I'm sorry.

01:14:04 5 Q. Did GEL process and keep records of the
01:14:07 6 security transactions anywhere, other than
01:14:10 7 Portfolio Shop?

01:14:12 8 A. At the custodian banks.

01:14:13 9 Q. Did GEL -- in addition to providing the
01:14:19 10 account information online to its customers, did
01:14:22 11 GEL also send out statements to its customers?

01:14:25 12 A. No. Everything is provided online.

01:14:27 13 Q. Everything's electronic?

01:14:28 14 A. Yeah. Portfolio Shop has the ability to
01:14:31 15 generate 300-plus types of reports. So with one
01:14:38 16 login, you can customize and have it emailed to
01:14:41 17 you every morning, every afternoon. You could
01:14:43 18 just choose not to have it emailed. You can just
01:14:47 19 download it a la carte. However you want.

01:14:53 20 Q. Did GEL provide 1099s to its customers?

01:14:56 21 A. I believe so.

01:14:57 22 Q. Who prepared the 1099?

01:15:00 23 A. Portfolio Shop.

01:15:00 24 Q. Okay. And who at GEL was the person
01:15:02 25 responsible for overseeing that?

01:15:07 1 A. My brother, Greg.

01:15:10 2 Q. Greg Galvani?

01:15:11 3 A. Yes.

01:15:18 4 Q. Could GEL's customers obtain access to

01:15:21 5 their holdings and transaction history anywhere,

01:15:26 6 other than through GEL?

01:15:35 7 A. No.

01:15:35 8 Q. Did you ever communicate with customers

01:15:37 9 about the trading in their accounts?

01:15:44 10 A. Can you be more specific?

01:15:45 11 Q. Yeah.

01:15:46 12 Your role as one of the principals of

01:15:48 13 the company, did you have reach-out conversations

01:15:54 14 with customers about what was going on in their

01:15:56 15 accounts, in their trading?

01:15:59 16 A. I'm sure I must have.

01:16:03 17 Q. One -- one thing I want to understand is

01:16:05 18 that you have said several times that in the

01:16:07 19 beginning, you were involved in the relaying of

01:16:15 20 trading instructions and some of the settlement

01:16:16 21 functions, but then later you weren't as involved.

01:16:20 22 Is that fair?

01:16:21 23 A. That's fair, yes.

01:16:21 24 Q. So how did your role change? What were

01:16:28 25 you involved in later?

01:16:30 1 A. Honestly? As, you know -- I'm a firm
01:16:40 2 believer in letting people you hire tend to it. I
01:16:43 3 found myself not doing much, actually, except for,
01:16:46 4 like, overseeing and being busy trying to, like,
01:16:50 5 come up with different -- different, like,
01:16:52 6 businesses and different business lines, so...

01:17:36 7 Q. When GEL collects its fees from
01:17:39 8 customers, those fees are then eventually
01:17:44 9 disbursed to the GEL Trustee entity, is that
01:17:48 10 right?

01:17:55 11 A. I forgot which one was Trustee. I --
01:17:57 12 but, yeah, it seems about right.

01:18:00 13 Q. And then the profits from the GEL
01:18:01 14 business are distributed to you and Mr. Jeffery?

01:18:04 15 A. Yeah, after expenses.

01:18:05 16 Q. And do you split net profits on a 50/50
01:18:11 17 basis?

01:18:12 18 A. 50/50.

01:18:21 19 Q. How much did you and Mr. Jeffery each
01:18:23 20 receive in profit distributions from the GEL
01:18:26 21 business in 2021?

01:18:30 22 A. No idea.

01:18:31 23 Q. Can you give me an approximation?

01:18:36 24 A. A million?

01:18:39 25 Q. Has GEL filed its 2021 tax return?

02:36:03 1 Q. And exercising discretion over trades is
02:36:07 2 not a requirement for being a broker.

02:36:12 3 A. Correct.

02:36:13 4 Q. And many brokers every day execute
02:36:18 5 trades for their customers without discretion?

02:36:23 6 A. Okay. Yes.

02:36:25 7 Q. Based on your experience in the
02:36:26 8 industry, in fact, most brokers who were executing
02:36:28 9 trades for customers were doing so without
02:36:29 10 discretion?

02:36:32 11 A. Yes, most brokers do it without
02:36:35 12 discretion. But like I said, we take instructions
02:36:41 13 and relay them just like any admin would.

02:36:51 14 Q. I want to reask the question because you
02:36:55 15 added a non -- so I'm going to object as
02:36:57 16 nonresponsive to the answer and just focus on my
02:36:59 17 question, not about what GEL was doing.

02:37:01 18 A. Okay.

02:37:02 19 Q. This is just a -- this is a different
02:37:03 20 question.

02:37:04 21 A. Okay.

02:37:04 22 Q. Based on your experience in the
02:37:05 23 industry, isn't it true that most brokers are not
02:37:12 24 exercising discretion when they handle trades for
02:37:18 25 customers?

02:37:22 1 A. Yeah.

02:37:35 2 (Whereupon, exhibit is
02:37:35 3 received and marked Galvani Deposition
02:37:35 4 Exhibit 11 for identification.)

02:37:35 5 BY MR. BERNSTEIN:

02:37:35 6 Q. I'm going to hand you now a document
02:37:37 7 that's been marked as --

02:37:46 8 A. Eleven.

02:37:47 9 Q. -- Exhibit 11.

02:37:54 10 A. Thank you.

02:38:01 11 Q. Exhibit 11 is an excerpt of your
02:38:04 12 investigative testimony.

02:38:09 13 A. Mm-hmm.

02:38:09 14 Q. And I want to draw your attention to
02:38:18 15 page 44, starting at lines 24.

02:38:23 16 And you were asked during your
02:38:26 17 investigative testimony:

02:38:30 18 "Q. And prior to the break you
02:38:31 19 indicated that GEL Direct provided
02:38:34 20 some -- I think you used the term some
02:38:37 21 'back office functions' for your
02:38:40 22 clients; is that correct?"

02:38:43 23 And you answered "Yes."

02:38:45 24 And you were then asked:

02:38:48 25 "Q. Can you briefly just describe what

135

02:42:40 1 literally be their back office. Somebody that
02:42:42 2 they don't have to pay healthcare for and they
02:42:45 3 don't have to put workers' comp, that type of
02:42:49 4 stuff.

02:42:49 5 Q. But to do what? You still haven't told
02:42:51 6 me what it is you were doing that you considered
02:42:53 7 admin.

02:42:53 8 A. Well --

02:42:54 9 Q. You just were saying you were --

02:42:55 10 A. Well --

02:42:55 11 Q. Using the term "back office" --

02:42:58 12 (Unintelligible cross talk; reporter
02:42:58 13 requests one speaker.)

02:42:59 14 Q. I'm trying -- I'm trying to drill down
02:43:01 15 and understand what are the services --

02:43:03 16 A. Okay.

02:43:03 17 Q. -- without just using the same terms.

02:43:06 18 A. Okay. So essentially, everything we've
02:43:09 19 kind of gone over earlier, right? So the -- the
02:43:18 20 reporting feature. The legal review is massive,
02:43:20 21 because in order for them to make any kind of
02:43:25 22 deposit anywhere, they need to have that legal
02:43:28 23 review and they need to make sure the paperwork is
02:43:31 24 there. You know, we connect them with those
02:43:34 25 lawyers to do so.

02:43:35 1 Q. Because if the legal review wasn't
02:43:37 2 performed, they would not be able to sell their
02:43:39 3 shares?

02:43:42 4 A. Anywhere, no.

02:43:43 5 Q. You also mentioned here bookkeeping.

02:43:45 6 Is that the same as --

02:43:45 7 A. That's their reporting feature, yeah.

02:43:47 8 Q. And then you also include "settlements
02:43:50 9 with outside brokers."

02:43:51 10 What does settlements with "outside
02:43:53 11 brokers" include within the GEL service --

02:43:56 12 A. If -- can I give you a for instance?

02:43:58 13 So, let's say GPL, because they were already

02:44:03 14 brought up, they call Wedbush executed trade. The

02:44:07 15 trade pop -- populates on the RAD system, right?

02:44:10 16 Now, PNC won't know to match Wedbush. So our --

02:44:14 17 the clients give us the report, and we then send

02:44:20 18 it up over to PNC to match and settle.

02:44:25 19 Q. So you're talking about a circumstance
02:44:27 20 in which a GEL customer uses its own executing
02:44:33 21 broker to complete a trade, and then it would need
02:44:38 22 to come to GEL to match that trade --

02:44:42 23 A. They would --

02:44:43 24 Q. -- for settlement purposes?

02:44:45 25 A. They would give GEL the instructions to

02:44:46 1 give to PNC to settle it, to make sure it's a good
02:44:52 2 trade.

02:45:26 3 (Whereupon, exhibit is
02:45:26 4 received and marked Galvani Deposition
02:45:26 5 Exhibit 12 for identification.)

02:45:27 6 BY MR. BERNSTEIN:

02:45:29 7 Q. And I'm now going to hand you a document
02:45:32 8 that's been marked Exhibit 12. And Exhibit 12 is
02:45:44 9 a graphic that -- that we created in an attempt to
02:45:56 10 try to summarize the transactions or some of the
02:46:06 11 transactions that we've been talking about today.

02:46:08 12 There's also a similar picture in our
02:46:11 13 complaint that you may have seen already.

02:46:18 14 A. Mm-hmm.

02:46:18 15 Q. So I just want to walk through this with
02:46:22 16 you briefly and -- and see if there are parts of
02:46:32 17 this demonstrative that you agree with and parts
02:46:35 18 that -- that you don't.

02:46:36 19 So let's -- let's start with -- they've
02:46:39 20 been numbered. You'll see that each step has been
02:46:41 21 numbered --

02:46:42 22 A. Yeah.

02:46:42 23 Q. -- on the flowchart. And so you see
02:46:44 24 there's a customer. And then as Step 1, you can
02:46:48 25 see that we have the customer transferring penny

02:46:52 1 stocks to a custodian account.

02:46:54 2 Do you see that?

02:46:56 3 A. Yeah, that custodian account. Yep.

02:46:59 4 Q. And is -- is that consistent with your
02:47:02 5 understanding of how the -- the process worked?

02:47:06 6 A. The TA would -- would actually transfer
02:47:09 7 the stocks into the PNC custodian account.

02:47:18 8 Q. I didn't -- I had trouble understanding
02:47:19 9 you there.

02:47:20 10 A. The TA would actually do the --

02:47:23 11 Q. The transfer agent?

02:47:24 12 A. Yeah.

02:47:24 13 Q. The customer didn't --

02:47:24 14 A. Yeah.

02:47:24 15 Q. -- physically sell --

02:47:24 16 (Unintelligible cross talk;
02:47:24 17 reporter requests one speaker.)

02:47:28 18 THE WITNESS: Sorry.

02:47:29 19 Q. The customer didn't physically transfer
02:47:31 20 the stock themselves. They provide instructions
02:47:34 21 for the transfer agent to transfer the stock that
02:47:38 22 they were holding to a GEL custodian account where
02:47:43 23 it was then maintained for their benefit?

02:47:45 24 A. To the custodian account at PNC.

02:47:51 25 Q. Right.

02:47:51 1 And then it was -- it was commingled
02:47:53 2 with the other securities in that custodian
02:47:55 3 account?
02:47:58 4 A. Yeah.
02:47:59 5 Q. Okay. And then if you go to Step 2, you
02:48:06 6 can see that GEL is finding brokers, executing
02:48:17 7 brokers, that are willing to execute on the
02:48:23 8 securities that GEL's customers have placed into
02:48:29 9 the custodian accounts.
02:48:31 10 Do you see that?
02:48:32 11 A. Yeah. Yeah.
02:48:32 12 Q. And that's accurate as well?
02:48:35 13 A. We find registered brokers to facilitate
02:48:39 14 the trades.
02:48:40 15 Q. And then I have here "instructs on price
02:48:43 16 and volume."
02:48:45 17 You've used the word "relay" earlier in
02:48:49 18 your testimony --
02:48:50 19 A. But that comes from the customer. The
02:48:52 20 customer instructs. The customer instructs on all
02:48:55 21 the instructions that the executing broker needs.
02:48:59 22 Q. Right.
02:49:00 23 And then you, GEL, provide those
02:49:04 24 instructions to the executing broker because
02:49:05 25 you're the one that has a relationship with the

02:49:08 1 executing broker, not the customer?

02:49:10 2 A. We relay the instructions, yes.

02:49:12 3 Q. And then the executing broker in Step 3

02:49:16 4 sells the penny stocks into the over-the-counter

02:49:22 5 market typically, correct?

02:49:23 6 A. Correct.

02:49:27 7 Q. And then the executing broker

02:49:30 8 essentially settles the trades. The -- the

02:49:31 9 proceeds less commissions go back to the GEL

02:49:37 10 custodian account where they are then transferred

02:49:42 11 to GEL's omnibus account or master trust account

02:49:45 12 and then they're allocated to the customer

02:49:50 13 subaccount or series trust. Is that fair?

02:49:54 14 A. That's fair.

02:49:55 15 Q. And that's what we talked about earlier

02:49:57 16 as well, correct?

02:49:59 17 A. Basically, yeah.

02:50:00 18 Q. And then the next step in the process is

02:50:02 19 if the customer requests it, the proceeds, less

02:50:10 20 fees, are wired out to the customer's outside bank

02:50:17 21 account?

02:50:18 22 A. Yes.

02:50:19 23 Q. Okay. Is there anything in this

02:50:23 24 demonstrative, in looking at it here and based on

02:50:25 25 what we've talked about today, that you think is

02:50:30 1 wrong or inaccurate about the way that we've

02:50:33 2 structured a model transaction?

02:50:39 3 A. I mean, there's a couple things I would

02:50:43 4 change. But, like, all the instructions on price

02:50:47 5 and volume come directly from the customer.

02:50:49 6 Q. Right. And we talked about that.

02:50:51 7 A. Yeah.

02:50:52 8 Q. And I've -- and I -- I've made that

02:50:53 9 notation.

02:50:54 10 A. Yep.

02:50:55 11 Q. Other than that, is there anything else

02:50:56 12 that -- that you think we need to change to this

02:51:00 13 demonstrative to make it an accurate reflection

02:51:04 14 of -- of a model or typical transaction that

02:51:07 15 happened at GEL?

02:51:13 16 A. Not that I could say.

02:51:21 17 Q. I want to talk now a little bit about

02:51:23 18 registration.

02:51:24 19 A. Okay.

02:51:28 20 Q. GEL Direct Trust and GEL Direct, LLC are

02:51:31 21 not registered and they have never been registered

02:51:38 22 as a broker or dealer with the SEC, is that

02:51:41 23 correct?

02:51:42 24 A. Correct.

02:51:43 25 Q. Has either GEL Direct Trust or GEL

02:51:47 1 Direct, LLC ever been registered with any
02:51:49 2 regulatory authority or government agency?

02:51:52 3 A. State of Delaware.

02:51:53 4 Q. So --

02:51:53 5 A. And I believe the statutory trust -- I
02:51:56 6 have to look it up, but I believe the statutory
02:51:59 7 trust is regulated by the State of Delaware.

02:52:04 8 Q. Okay. So that's a little bit different
02:52:05 9 than the question I asked, but we can talk about
02:52:07 10 it.

02:52:08 11 A. Yeah.

02:52:08 12 Q. So -- so what you're saying is the GEL
02:52:10 13 Direct Trust is a statutory trust?

02:52:12 14 A. Yeah.

02:52:12 15 Q. It's a trust?

02:52:13 16 A. Yeah.

02:52:14 17 Q. And so it -- it was set up as a trust in
02:52:15 18 Delaware?

02:52:16 19 A. Correct.

02:52:17 20 Q. But has GEL Direct Trust or GEL Direct,
02:52:19 21 LLC ever been registered with any regular --
02:52:23 22 regulatory authority or government agency?

02:52:26 23 A. As far as, like, the SEC or FINRA or
02:52:28 24 something?

02:52:29 25 Q. Yes.

02:52:29 1

A. No.

02:52:32 2

Q. Have GEL Direct Trust or GEL Direct, LLC

02:52:36 3

ever been examined or audited by any regulatory

02:52:39 4

authority or government agency?

02:52:40 5

A. No.

02:52:44 6

Q. Has GEL Direct Trust or GEL Direct, LLC

02:52:47 7

ever filed reports with any regulatory agency or

02:52:57 8

government agency?

02:52:58 9

A. As far as?

02:52:58 10

THE REPORTER: I'm sorry?

02:52:59 11

A. As far as?

02:53:00 12

THE REPORTER: Oh.

02:53:00 13

A. What type of reports?

02:53:02 14

Q. Any type of reports.

02:53:03 15

A. To my knowledge, no.

02:53:09 16

(Whereupon, exhibit is

02:53:09 17

received and marked Galvani Deposition

02:53:09 18

Exhibit 13 for identification.)

02:53:09 19

BY MR. BERNSTEIN:

02:53:09 20

Q. I'm going to hand you now a document

02:53:11 21

that has been marked as Exhibit 13.

02:53:24 22

A. Yeah.

02:53:30 23

MR. BERNSTEIN: Actually, I'm

02:53:31 24

sorry. I need to use that. I don't

02:53:32 25

have enough to give you. I need to

147

02:53:34 1 use this.

02:53:35 2 BY MR. BERNSTEIN:

02:53:35 3 Q. So can you identify Exhibit 13 as a true
02:53:42 4 and correct copy of the broker check report for
02:53:45 5 you on FINRA?

02:53:47 6 A. It looks like it.

02:53:52 7 Q. And, Mr. Galvani, you have never
02:53:53 8 personally registered as a broker with the SEC or
02:53:57 9 FINRA?

02:53:58 10 A. Personally? What do you mean? I mean,
02:54:01 11 I've been registered --

02:54:03 12 Q. I'm talking about you being an
02:54:05 13 associated person. But you have not, yourself,
02:54:07 14 personally registered with -- as a broker with the
02:54:10 15 SEC or FINRA?

02:54:12 16 A. I didn't know you could. I thought you
02:54:13 17 had to be -- okay.

02:54:19 18 Q. So let me ask my question one more time
02:54:21 19 to just get a direct answer.

02:54:23 20 A. Okay.

02:54:23 21 Q. Have you ever personally registered as a
02:54:25 22 broker with the SEC or FINRA?

02:54:27 23 A. No.

02:54:28 24 Q. You are familiar with Crito Capital,
02:54:33 25 LLC?

02:54:34 1 A. Yes.

02:54:34 2 Q. And it states here on Exhibit 14 -- 13?

02:54:42 3 A. Thirteen.

02:54:42 4 Q. Thirteen. It states here on Exhibit 13

02:54:45 5 that as of the date of this form, at least, you

02:54:49 6 are associated with Crito?

02:54:51 7 A. Yes, I am.

02:54:52 8 Q. And are you still associated?

02:54:53 9 A. Yes.

02:54:54 10 Q. And it says on the broker check form

02:54:59 11 that you first became associated with Crito in May

02:55:02 12 of 2020.

02:55:03 13 A. That makes sense.

02:55:07 14 Q. And is that correct? Is that when you

02:55:08 15 first became associated with Crito?

02:55:10 16 A. Yes.

02:55:11 17 Q. Before you were associated with Crito,

02:55:12 18 it states you were last associated with a

02:55:15 19 registered firm in June of 2018.

02:55:17 20 A. Yep.

02:55:18 21 Q. Is that correct, that the last firm you

02:55:20 22 were associated with before Crito was in June of

02:55:23 23 2018?

02:55:24 24 A. Yes.

02:55:25 25 Q. And that was Wynston Hill Capital?

02:55:28 1

A. Yep.

02:55:35 2

Q. And Wynston Hill Capital, that firm has

02:55:38 3

nothing to do with the GEL business?

02:55:39 4

A. No.

02:55:40 5

Q. So between June 2018 and May 2020, you

02:55:45 6

were not associated with a registered

02:55:47 7

broker-dealer?

02:55:48 8

A. Correct.

02:55:55 9

Q. GEL started taking in securities from

02:55:57 10

customers in the first half of 2019, is that

02:56:01 11

correct?

02:56:02 12

A. Correct.

02:56:02 13

Q. And you were not associated with a

02:56:05 14

registered firm at that time?

02:56:07 15

A. Correct.

02:56:07 16

Q. And you did not become associated with a

02:56:10 17

registered firm until approximately a year later?

02:56:12 18

A. Correct.

02:56:19 19

Q. So you were managing GEL for

02:56:20 20

approximately a year while you were not associated

02:56:22 21

with a registered broker-dealer?

02:56:25 22

A. Correct.

02:56:36 23

(Whereupon, exhibit is

02:56:36 24

received and marked Galvani Deposition

02:56:36 25

Exhibit 14 for identification.)

02:59:02 1 14 identifies GEL Group as an outside business
02:59:08 2 activity.

02:59:09 3 Do you see that?

02:59:10 4 A. Correct.

02:59:10 5 Q. The form does not mention GEL Direct
02:59:15 6 Trust.

02:59:16 7 A. Like I said, we filled out a bunch of
02:59:19 8 them, so GEL Direct Trust should have been on
02:59:26 9 there.

02:59:26 10 Q. So let's break that up.

02:59:28 11 So just first to clarify, the form does
02:59:29 12 not mention GEL Direct Trust, correct?

02:59:31 13 A. Correct.

02:59:32 14 Q. And why doesn't the form mention GEL
02:59:34 15 Direct Trust?

02:59:34 16 A. To be honest with you, there's probably
02:59:38 17 another form that has GEL Direct Trust on it. I
02:59:39 18 just -- like I said, we -- we filled these out a
02:59:43 19 number of times for him.

02:59:49 20 Q. If -- if -- GEL Direct Trust not being
02:59:53 21 on there, are you saying it was an oversight?

02:59:55 22 A. Most likely, if it's not on there.

03:00:01 23 Q. Before 2022, Crito did not supervise any
03:00:06 24 activities of the GEL Group or GEL?

03:00:13 25 A. Not really. We formally got affiliated

03:00:18 1 in, I think -- about a year ago, year and change
03:00:23 2 ago.

03:00:23 3 Q. Okay. So that would be a year and
03:00:25 4 change ago. We're in --

03:00:29 5 A. Yeah, I think March 2022.

03:00:30 6 Q. -- the second quarter of -- of 2023.

03:00:33 7 So that's -- so that's consistent with
03:00:35 8 what I just said.

03:00:36 9 A. Yeah.

03:00:37 10 Q. So before 2020 -- 2022, Crito did not
03:00:42 11 supervise any activities of the GEL Group or GEL,
03:00:45 12 correct?

03:00:46 13 A. Correct.

03:00:46 14 Q. And that would include no supervision of
03:00:48 15 the securities transactions that occurred in GEL
03:00:52 16 accounts?

03:00:53 17 A. Correct.

03:00:54 18 Q. Before 2022, Crito was not receiving any
03:00:56 19 portion of the fees GEL's customers were paying
03:00:59 20 GEL, is that correct?

03:01:01 21 A. Correct.

03:01:04 22 Q. Did there come a point in time that
03:01:06 23 Crito began taking a role in supervising GEL's
03:01:11 24 activities?

03:01:16 25 A. Yeah. So we were going back and forth

1 STATE OF NEW YORK)
 2) ss:
 3 COUNTY OF NEW YORK)
 4


5 I hereby certify that the witness in the
 6 foregoing deposition, JEFFREY K. GALVANI, was by me duly
 7 sworn to testify to the truth, the whole truth and
 8 nothing but the truth, in the within-entitled cause;
 9 that said deposition was taken at the time herein named;
 10 and that the deposition is a true record of the
 11 witness's testimony as reported by me, a duly certified
 12 shorthand reporter and a disinterested person, and was
 13 thereafter transcribed into typewriting by computer.

14 I further certify that I am not interested in
 15 the outcome of the said action, nor connected with nor
 16 related to any of the parties in said action, nor to
 17 their respective counsel.

18 IN WITNESS WHEREOF, I have hereunto set my
 19 hand this 4th day of May 2023.

20 Reading and Signing was:

21 ___ requested ___ waived _X_ not discussed.
 22
 23

24 
 25 BRIDGET LOMBARDOZZI, CSR, RMR, CRR